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**Mar. 13, 1996** **LETTER 1195**

**THE PICTURE: March 8:** The Dow was down a whopping 171 points for the day, Transports were down 44 points, and Utilities were down almost 6 points. Is this the end of the road? Is this the beginning of a bear market? Let's keep emotions out of it. The fact is that 171 points equals only 3%. True, 171 points is a lot for a one-day decline, but "one robin doesn't make a spring," and one down-day doesn't make a bear market.

Of course, the real beating has been taken by the bonds, which were down a huge 3.5 points for the day (and down a big 8% from their recent high). With a total of $15 trillion in total debt outstanding in the US, the collapsing bond market plus rising rates wiped out tens of billions of dollars in the value of bonds and other interest-rate sensitive securities. Note: Already in 1996 more than a full year's return on bonds has been erased.

As to what it all means, to know the full meaning of the recent action is going to take time (see PRICE ACTION below and study the charts on page 2 carefully).

**IMBALANCE?** We're told that there now exists a permanent "imbalance" between the limited amount of stocks available and the massive amounts of money coming into the market via mutual funds. My answer: nonsense -- Wall Street always creates whatever the public wants, and in whatever quantity is needed. **Note:** With $4 to $6 billion a week coming into the funds, the market has been churning ever since early February. **Second note:** Over 100 initial public offerings (IPOs) are slated to go out in March, the highest monthly number in history. The word is out to the entrepreneurs: if you want to sell your company to the public, this is the time to do it. **Third note:** Last week Revlon came out with an IPO. The issue hit the market at 24, went as high as 29.62, then settled at 27. Revlon was oversubscribed by 600%. **Final Note:** This paragraph was written BEFORE the mini-smash of March 8.

**Values:** The plunging long bond now yields 6.62%. At the same time the earnings yield (earnings divided by price) on the S&P 500 is 5.39%. This produces a huge negative yield gap of 123 points. In the past, anything much over 50 negative points has been bearish for stocks. So at present, actual bond yields (which are relatively secure) are 123 points *higher* than the very variable earnings yield for stocks (remember, this study refers to the *earnings* yield on stocks, not the dividend yield).

The *current dividend yield* on the S&P 500 is a very low 2.27%. The yield on the S&P 100 Industrial Average is a minuscule 1.95%. Yet, analysts are telling their clients to buy stocks for income and for their retirement. Let's face it, there's no real return from stocks at this time. When you buy stocks today, forget about income; you have to hope for appreciation -- and this following a sky-high market that hasn't had a real correction since 1990!

**PRICE ACTION:** Economic analysis can be fascinating, but let's face it, we don't make money on our familiarity with business background material. No, we make money on price action -- on whether the market and stocks move UP or DOWN.

So let's discuss price action. After early February peaks, the Dow and the Transports suffered sharp declines that took them to lows recorded on February 20. Those lows were **5458.53** for Industrials, and **2027.85** for Transports. Following those lows,

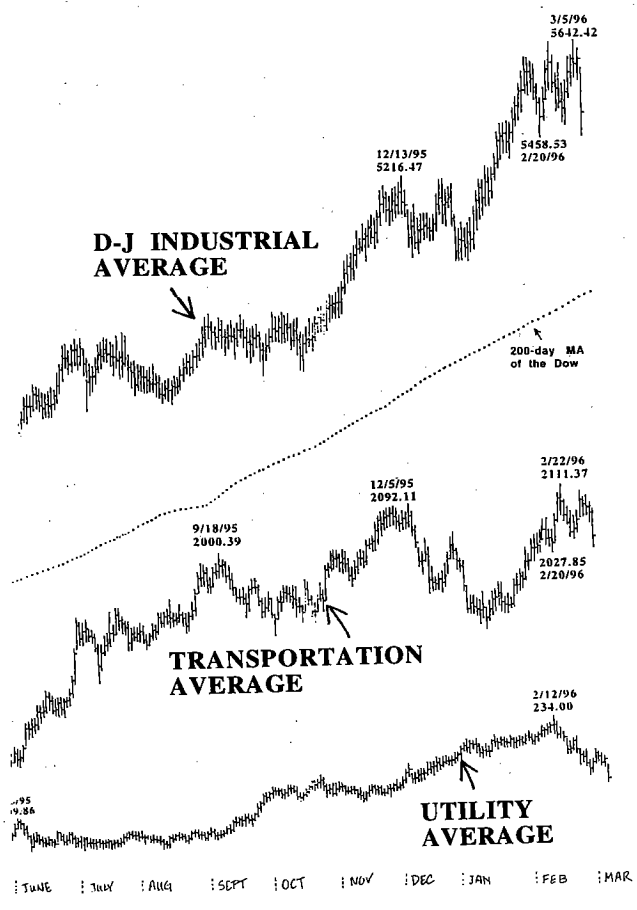
**Mar. 1 DJIA 5536.56; PTI 4465; A-D Ratio -0.20**
**Mar. 8 DJIA 5470.45; PTI 4461; A-D Ratio -0.71**
**Dow Yield: 2.18%; Dow Price/Earnings: 17.2**
**Dow 200-day MA: 4904; Dow 30-day MA: 5500**
**Dow Times Book Value: 4.19; PTI 89-day MA: 4408**
**Percentage of Undervalued Blue-chips: 3%**
**Gold 200-day MA: 390.82; Gold-PTI: 684**

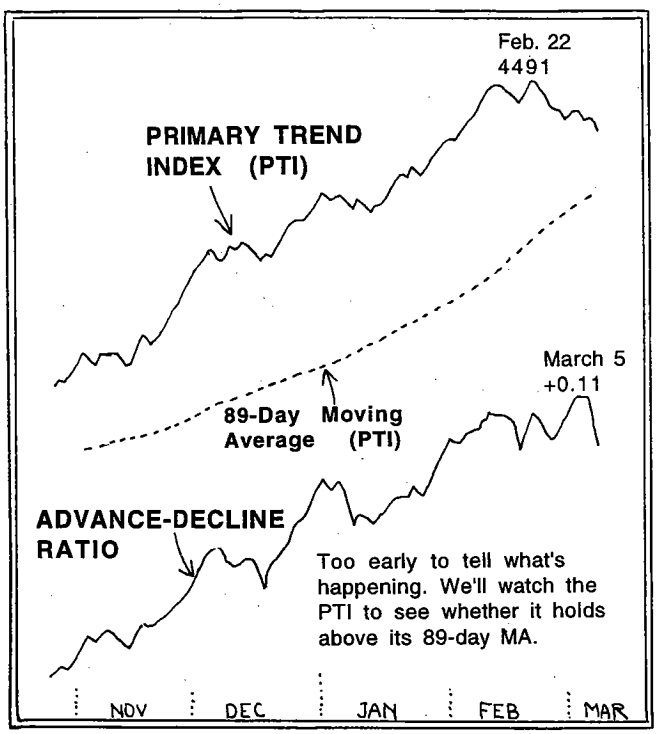
both Averages rallied to record highs -- then sagged again (see page 1 chart).

I consider the February 20 lows to be the nearest significant support points. As I interpret the picture, as long as one or both Averages hold above the February lows the secondary trend of the market will remain neutral to bullish. On the other hand, if BOTH Averages break below those February 20 lows we will have the first indication that the market is in trouble and that the secondary trend of the market has turned bearish.

So far in '96 the stock market has acted as if it was literally glued to the bond market. When bonds rally, the stock market rallies. When bonds decline, the stock market declines. In other words, Wall Street is now totally focused on interest rates. Every slightest murmur out of the Fed is jumped on and analyzed and re-analyzed. Every slight blip in bonds finds a reaction in the stock market.

Do you remember when, a few years ago, Wall Street was obsessed with the money supply? Old timers probably remember when the market was obsessed with the Confidence Index. Prior to that it was odd lots and odd lot shorts. Wall Street always has





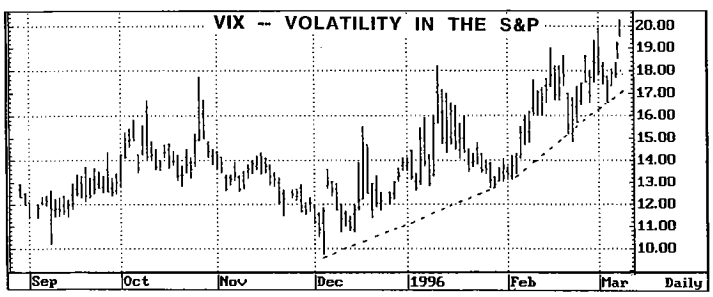

something it is obsessed with, and the current "bellwether of choice" happens to be interest rates.

What I watch is not the obsession of the moment, but the market's *reaction* to the obsession of the moment. Suggestion: if you want an early hint of trouble, watch for the market to go down in the face of declining interest rates.

Turning to the page 2 chart of the **Primary Trend Index (PTI)** and the **advance-decline ratio**, for the first time in the last six months we see some change, some actual damage. The PTI struck a high first, on February 22, at an all-time high value of 4491. From there the PTI has zig-zagged down -- nothing decisive yet, but the PTI has, indeed, turned down. As for the A-D ratio, it hit a peak of +0.11 on March 5, moved sideways for a few days, then plunged mightily on the single day of March 8.

What can we conclude from the action of these two indicators? Only this -- we've received an early "warning signal." But for real trouble -- I would have to see more downside action.

**VOLATILITY:** Volatility is based on market action, either up or down. Volatility is often computed on the basis of a given year's percentage change over the previous year. After four years of the lowest volatility on record, the stock market is finally turning volatile. The page 2 volatility chart is not based on year-to-year change but on 20-day change in "implied volatility." To simplify, the volatility on this chart is based on OEX traders' judgments of how much action (either up or down) will be coming into the market. Their judgment at this time is that there's going to be a lot of action during the period ahead. **Note:** During 1996 so far there have been 20 days with intra-day swings of more than 50 points. This represents almost half of the trading days so far this year. Volatility -- it's here.



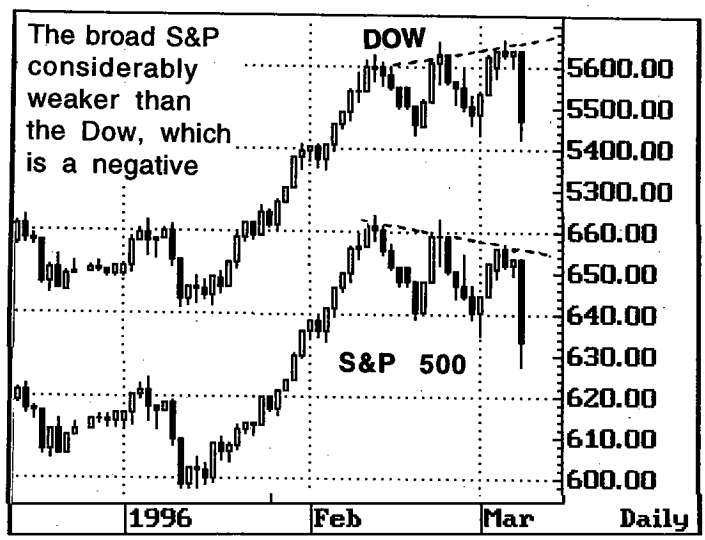

**DOW/VALUE LINE:** Dan Sullivan of *The Chartist* (PO Box 758, Seal Beach, CA 90740) uses the Value Line Composite as a proxy for secondary stocks. He calculates the November-December low and the January-February high for the Value Line and then compares the Value Line action in that period with the same action in the Dow (i.e., he divided the Value Line gains by the Dow's gain). Sullivan found that "when the broad market's relative strength lags the blue-chips or does only marginally better at the beginning of the year, it often signals weakness in the broad market for the remainder of the year."

Sullivan's study is particularly interesting now because the ratio for the late-1995 to early 1996 period was a **very low 0.43.** This was the **second lowest ratio in 30 years** (the only lower ratio occurred in the late-1981, early-1982 period). Thus this study calls for a sluggish or down market during the period ahead.

True, the above study is simply a variation of the Dow/advance-decline study, but if you look at the page 2 chart you'll note that the A-D ratio is still acting well. The difference in the two studies could be that the Value Line has been adversely influenced by (recently weak) tech stocks while the A-D ratio has been boosted by the large number of stocks that are interest-rate sensitive (and rates have been declining). Nevertheless, it's usually a mistake to try to "explain away" a technical study.

In the end, if Dan Sullivan's Value Line/Dow study proves significant, we should see it reflected in a stalled out or even a declining PTI. For this reason, I feel that action of the PTI from here on will be extremely significant (remember, the PTI has been in a bullish mode for years).

**Note:** Along the lines of the above, despite recent new highs in the Dow, the much broader S&P 500 stock average failed to confirm the new Dow highs. I have shown this disparity on the chart below.



**INVESTMENT POSITION:** The primary trend of the market is bullish. I will continue to classify it as bullish until it is proved otherwise. The bull stays in the box.

**Question:** Russell, what's your real personal opinion of where the market could go this year?

**Answer:** From the December 20 low of 5059.32 to the February 23 high of 5630.49 the Dow climbed **571 points** or 10.2%. This almost straight-up advance occurred against the background of a rising bond market and declining rates. My feeling is that this 571 point rise probably discounted the best that could be seen ahead. With the Fed now pumping up the money supply I think there's a chance that business will hold or possibly even improve this year

(particularly prior to election) and some of last week's economic news and statistics suggest that the surprise could be an upturn in business (certainly the bond market was surprised, or should we say SHOCKED, by the better business and employment news).

The stock market is caught on the horns of a dilemma. On the one side, the market is severely overvalued. With interest rates rising the normal direction for the market should be down. But if business is improving, it's still conceivable that the market could take kindly to the happy news -- and stay in the stratosphere.

Here's my own instinct based on what I've seen so far -- the odds are better than even that the highs for 1996 have been seen and possibly the highs for the entire bull market. Either way, I feel that the "gravy train" has passed -- it's history. If business does improve, the odds increase that the top has been seen and the easier and more logical direction is down (after all, the recent dividend yield of 2.1% on the Dow discounted business heaven). If all this is true, stocks are not an appetizing holding at this point. Of course, I've been saying this for many months, but to me, it looks increasingly as though the sidelines have been the right place to be.

## MONEY -- A SHORT HISTORY:

**1792 to 1878** -- US is on the bi-metallic standard under which gold and silver both serve as dollars.

**1900** -- The Gold Standard Act declares a standard of value -- the dollar is to be 23.22 grains of fine gold. This act put the US clearly on the gold standard.

**1913 --** By an act of Congress, the Federal Reserve System is enacted. Although the Constitution specifically states that only Congress can issue money, the creation of "money" is placed in the hands of a private system of banking. The Treasury will continue to manufacture coins, but it will no longer issue US notes.

**1914** -- Federal Reserve Notes are issued -- the notes carry the notation that this bill "is redeemable in gold on demand at the Treasury Department of the United States . . . or at any Federal Reserve Bank."

**1933** -- Emergency Banking Act of 1933. Roosevelt in an executive order, calls in all gold and gold certificates. The Thomas Inflation Amendment, a rider to the Agricultural Adjustment Act of 1933, permits the President (a) to devalue the gold content of the dollar up to 50%, (b) to make all paper money legal tender.

**1933** -- The Gold Clause Obligation is abolished, compelling all creditors to "accept legal tender in payment of debts" (prior to 1933 many contracts contained clauses stating that debt must be paid in gold).

**1934** -- Congress passes the Gold Reserve Act, which mandates (a) government ownership of all gold held by the Federal Reserve System; (b) the Treasury to credit Federal Reserve Bank at $20.67 an ounce of gold acquired; and (c) the Treasury issues gold certificates into the system. These were utilized as reserves.

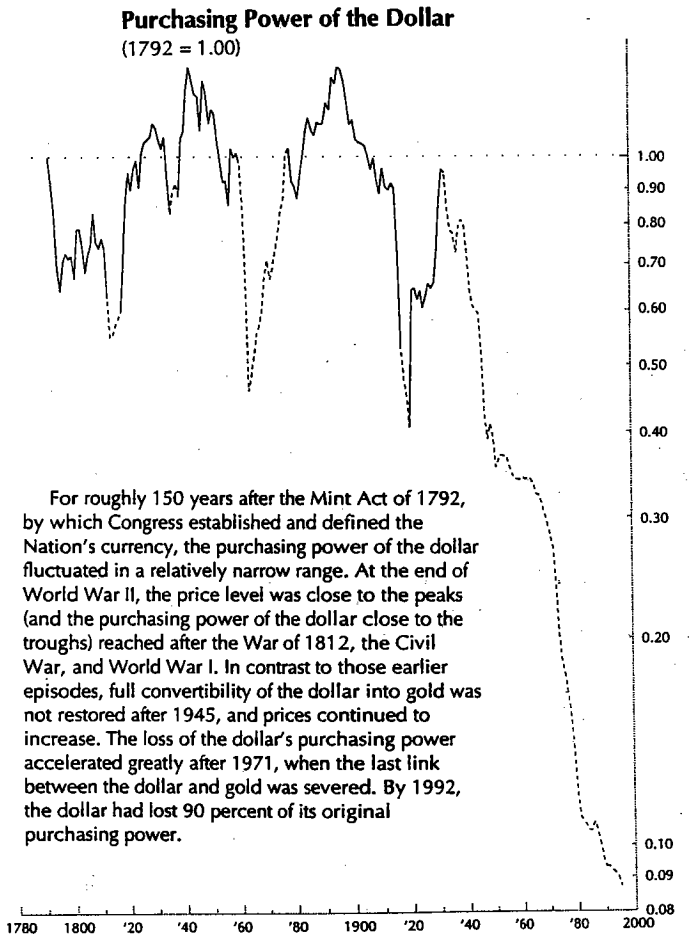
**1934** -- Roosevelt raises the price of gold from $20.67 to $35 an ounce. The dollar now equals 13.714 grains of gold, a reduction in the dollar's gold content which amounts to a devaluation, modifying the gold standard with a devalued dollar. In effect, Roosevelt reduces the gold content of the dollar to 59% of what was established in the Gold Standard Act of 1900.

**1971** -- Nixon shuts the "gold window," thus barring foreigners from calling in any US gold in exchange for their debts.

**Result:** If you examine one of your dollar bills you will note that it says, "This note is legal tender for all debts public and private." As Federal Reserve Notes evolved from 100% gold backing to "we owe you nothing" status, politicians added the words, "In God We Trust." Most Americans didn't have to be told to trust in God, but they were now in the position of not only having to trust God, but also having to trust their government.

So from being able to turn in Federal Reserve Notes and receiving gold, today you can turn in your dollar and receive -- nothing. You have to wonder how long it will be before the dollar buys -- nothing, for that, in a nutshell, is the history of fiat (non-gold backed) paper currency.

This chart shows you the result of Americans' trust in government and in the politicians they elected. (Chart courtesy of *American Inst. for Economic Research,* Great Barrington, MA 01230.)


Purchasing Power of the Dollar
(1792 = 1.00)
For roughly 150 years after the Mint Act of 1792, by which Congress established and defined the Nation's currency, the purchasing power of the dollar fluctuated in a relatively narrow range. At the end of World War II, the price level was close to the peaks (and the purchasing power of the dollar close to the troughs) reached after the War of 1812, the Civil War, and World War I. In contrast to those earlier episodes, full convertibility of the dollar into gold was not restored after 1945, and prices continued to increase. The loss of the dollar's purchasing power accelerated greatly after 1971, when the last link between the dollar and gold was severed. By 1992, the dollar had lost 90 percent of its original purchasing power.
1.00
0.90
0.80
0.70
0.60
0.50
0.40
0.30
0.20
0.10
0.09
0.08
1780
1800
'20
'40
'60
'80
1900
'20
'40
'60
'80
2000

Note: Purchasing power was calculated from the Wholesale Price Index (source: Bureau of Labor Statistics, U.S. Department of Labor). The broken portions of the curve are periods when redeemability of the dollar into the monetary commodities at fixed rates was suspended.

**NOTES & QUOTES:** What's the matter with the bond market? For one thing, with all the talk, there's been no budget agreement. And we're still adding billions to the federal debt. My latest figure: over the last 12 months $162 billion has been added to the national debt, taking the debt to $5.016 trillion. This amounts to $443 million of debt every day, 365 days a year. And oh yes, Clinton vetoed the Republican budget resolution.

* *

Two candidates scare the hell out of the establishment -- Forbes and Buchanan. (The *US News & World Report* cover headlines, "The Loose Buchanan.") What is Pat Buchanan latching on to; what is his base of popularity? Easy, it's the average American worker's feeling of insecurity, his fear of losing his job. Check out these statistics: AT&T -- 40,000 layoffs since Jan. '96; Chemical/Chase -- 12,000 layoffs since Aug. '95; GTE -- 17,000 layoffs since Jan. '94; IBM -- 60,000 layoffs since July '93; Delta Air -- 15,000 layoffs since Apr. '94; McDonnell Douglas -- 17,000 layoffs since Jul. '90; GM -- 74,000 layoffs since Dec. '91; Digital Equip. -- 20,000 layoffs since May '94; Sears -- 50,000 layoffs since Jan. '93; Philip Morris -- 14,000 layoffs since Nov. '93; Boeing -- 28,000 layoffs since Feb. '93; Nynex -- 16,800 layoffs since Jan. '94. **Russell Comment:** And this is only a fraction of

what's been happening, so I'd say that Buchanan has zeroed into what Americans are really worried about. But what worries me is with these millions of lay-offs here with the Dow near a record bull market high, what happens when the next bear market arrives? It's not a pleasant thought.

Buchanan's formula for bringing back prosperity is antiquated, but worse-- it won't work. Buchanan wants to set up trade barriers, put new tariffs on imports, "protect" the American worker. In contrast with Buchanan, Forbes believes that the US must go with the world trend towards globalization and high technology including more free trade deals. The future, says Forbes, is not with protecting old jobs but to continually create new ones. The key to that is the flat tax. The flat tax, maintains Forbes, will take the monkey off the back of Americans and spur a new prosperity.

* *

**Flat:** What's the basis of the violent objection to the flat tax by the Republican candidates, Democrats and, in fact, most politicians? The objection is that the flat tax would RIP APART WASHINGTON'S WHOLE POWER STRUCTURE, WHICH IS BASED ON THE POLITICIANS' ABILITY TO TAX GROUPS THEY FAVOR AND PUNISH GROUPS THEY DON'T FAVOR. Take away the current corrupt tax system, says Forbes, and the Washington power structure will fall apart. So it's no wonder the politicians are scared to death of the flat tax. No wonder there isn't even an open, fair, national debate on the flat tax. No, there are just mindless denunciations, ignorant objections and prejudiced statements from those who have never even taken the trouble to investigate the benefits of a flat tax. Hong Kong, by the way, one of the most competitive, prosperous areas of the world, has had a flat tax for years. FEAR OF THE FLAT TAX IS A FEAR OF LOSS OF POLITICAL POWER. It's that simple.

As columnist Don Feder writes, "The panic Forbes inspires in Washington is the same panic you'd have seen on the faces of big capitalists early in this century at the talk of a general strike. In those days, the idea of workers rising en masse against the owners raised apocalyptic hopes and fears. Today the idea of a tax revolt frightens everyone who has counted on the everlasting submission of the taxpayer. It means that all bets are off."

* *

And what about Dole? Here's what David Broder of the *Washington Post* writes: "Dole may not be strong enough to win both the nomination and the election, but he is a big enough figure so that no one else in the party may be able to get around him . . . But for any Republican watching Dole campaign on the same day and within a few miles of Clinton in Iowa and New Hampshire, it was hard to avoid the sinking sensation that your guy is overmatched." And here's what my old friend, Howard Ruff says about Dole: "Newt Gingrich accurately called him 'The tax collector for the welfare state.' He never saw a principle he couldn't compromise, and he thinks that's a virtue. He has often quoted Richard Nixon's advice, 'Run to the right to get the nomination; run to the left to win the election.' And that's exactly what he's doing."

Meanwhile, Al Neuharth (he founded *USA Today)* writes that "Bob Dole deserves respect and gratitude for a lifetime of distinguished service. But at 72 and tired, he's a better candidate for 'first man' or 'second man' than he is for the Presidency." Neuharth wants Dole's wife, Liddy Dole to run on a Steve Forbes and Liddy Dole Ticket. But Dole pushes on and no changes are planned. Dole's best chance of winning in the Russell opinion -- a market collapse and recession before the election.

**Russell Thought:** Looks like Dole is in. A Dole/Forbes ticket? I could go for that.

* *

The "high arts" (symphony, chamber music, dance, etc.) are suffering today for lack of interest and money. Why? Judith Palfe was commissioned by the NEA to find out about the baby boom generation and their wants. In a coming book she writes, "Boomers give less to charity and specifically less to the arts. They do less volunteering because they have less leisure time. Two people are working for the same income, and they have a sense of declining fortune. Then, of course, there are the two biggies, TV and rock music. My father happened to work for Westinghouse, and we got the first TV set on the block -- in '47. But I had my immediately formative years without TV. So I was practiced in living without it. And popular music was whatever the grown ups happened to like. That's because it had to be played on the only radio or phonograph that was in the house. By the 1950s most every house had a TV, and there were 45 RPM records and cheap radios and record players so teenagers could listen to their own music in their own rooms. So what happened was that you had a critical mass of consumers -- the baby boomers -- whose taste could be targeted by advertisers. Suddenly, instead of everybody being part of the same general culture, audiences were segmented, and the sense of a culture, at least a popular culture which transcended generations, was lost."

**Russell comment:** Today the kids make their own music, and the marvelous ballads of Berlin, Porter, Rogers and Hart, Gershwin, etc. are unknown, at least they are to my kids. But rap and today's screaming "performance music" is basically unromantic, ugly and, I think, temporary. But the Feb. 26 *WSJ* reports that record and music stores are going out of business at a disturbing rate. The reason -- just too many stores, plus -- nothing new is coming out in music and the kids are getting bored. My guess -- in due time music will return to what's pretty or artistic such as good jazz, folk music and ballads. What goes around, comes around.

* *

Talking about entertainment, I have both the satellite dish and cable. I like them both, but the satellite is far superior with a huge number of stations against the limited number of stations on cable. Frankly, I don't see how cable will ultimately compete with the satellite. Coming up -- Robert Redford's Sundance Channel, which FINALLY will show outstanding amateur and special niche films. Many of these are almost impossible to see but are of great interest.

* *

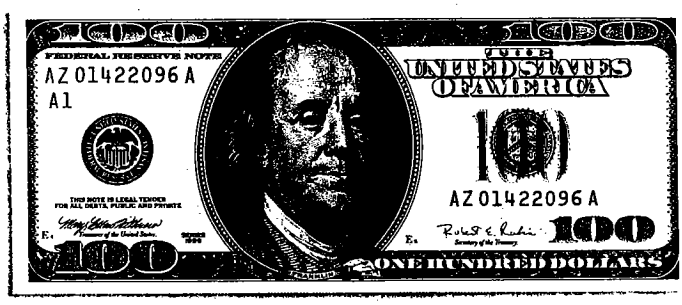
The futures business gets bigger and bigger. Following are the biggest volume futures in 1995 in millions of contracts traded: Eurodollars -- 95 (million); T-Bonds -- 86; Crude Oil -- 23; 10-Year T-Notes -- 22; S&Ps -- 18; Corn -- 15; 5-year T-Notes -- 12; Soybeans -- 8; Heating Oil -- 8; Natural Gas -- 8; Gold -- 7.

* *

I still read the *New Yorker,* a magazine which is predictably and mindlessly liberal. But in every issue there is usually one article or at least one thought that is worth taking in (although the cartoons are now just droll, not funny at all). At any rate, one piece noted that the US is becoming more and more like a S. American banana republic: "We have paramilitary groups blowing up government buildings. We have a First Lady who considers herself a tribune to the poor and is in trouble with the law. We can buy lottery tickets on every corner and gambling casinos dot the land. We have a huge and growing gap between rich and poor, with the rich protected by private security services and the poor isolated in sprawling slums where gunfire is common." **Russell Comment:** Add dangerous streets where no one is safe at night, plus fiat or paper money that is backed by nothing.

* *

Speaking of paper money, the so-called "Supernotes," the counterfeit $100 bills that are flooding Europe and the Mideast, are extremely difficult to identify. The notes are so good that it is thought that a government rather than private counterfeiters is doing the work. First, the Supernotes are printed on intaglio



presses, which imprint from etched plates under heavy pressure (rather than the usual counterfeiting method of offset printing). More amazing, the Supernotes are made with rag cotton paper (like real US currency). They also contain tiny red and blue fibers and an imbedded plastic strip. The strip is the anti-counterfeiting feature that was added to real US currency in 1990. The Supernotes appeared first in the Mideast but have spread as far as Hong Kong and Russia. The US Secret Service has 20 anti-counterfeiting agents abroad now, but is adding 12 more.

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In much of Africa there is no electricity and no place to even buy a battery. So the new hot item is a battery free radio that weighs six pounds, looks like a lunch box, and is wound up by hand, whereupon it plays AM, FM or short wave for half an hour (meaning it can get the BBC and Voice of America). Wholesale price is $40. A radio is considered one of the three status symbols of Africa. The other two are a bicycle or the ultimate -- a motorcycle. The maker of the radio is BayGen Power and the company can't make the wind-up radios fast enough. Says an executive of BayGen, "Ghana wants 30,000." **Russell comment:** Sometimes the simplest idea and most logical concepts have not yet surfaced.

* *

The level of violence in this country has increased immeasurably. For instance, a few days ago I again watched the classic movie, "High Noon" starring Gary Cooper. When this picture came out in the '60s, everyone was amazed at the final scene where Coop shoots down three gunmen and his wife, Grace Kelly, kills the fourth. Today that scene appears mild. The same goes for the big, climax shooting scene in "Shane," although Shane did represent a step-up in violence. Now comes a new sport to the US, the "Ultimate Fighting Championship." The UFC is beginning to sweep the US, Europe, Japan and S. America. The UFC fights are bare-handed and there are only two rules -- no biting and no eye-gouging. The fighting takes place in an eight-sided ring called "The Octagon" (no corners to hide in). The fights are often spectacular, and the contestants are almost all trained martial arts fighters or boxers with grappling knowledge. A fighter can give up or the ref can stop the fight or a fighter can just be knocked out. So far (unlike boxing, by the way), nobody has been badly hurt or killed. The sport is growing, and in my opinion UFC will eventually replace today's phony "pro wrestling" and even today's mostly-boring boxing. So far UFC is shown only on pay-per-view or tapes which can be rented at Blockbuster or other video outlets. Like it or not, I predict that UFC is going to go big time (a few states have banned it, but fights will then be held in Puerto Rico, Mexico or some other country and be televised in the US).

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*Forbes* magazine puts out a supplement with it regular magazine. The supplements contain a lot of ads and usually a few good articles. This month's supplement contains an excerpt from Joseph Heller's latest novel, "Closing Time" (remember, his first novel was "Catch 22"). The chapter in *Forbes* is entitled, "What Did You Eat In The War, Daddy?" I was in Italy around the same time that Heller was. We were both B-25 bombardiers. Heller evidently ate better than I did. But I can tell you a little about what I ate back in those days. I was stationed near Ancona at the time, at a B-25 base. I remember that I was longing for a real egg, and I hit the countryside looking for a genuine hen's egg (the army served powdered eggs). Finally, I found a farmer who sold me three eggs for 150 lire. I brought them back to the base and had Cookie scramble them. Mmmm. Strangely, I never had much spaghetti in Italy. The Air Force didn't serve it often, and I didn't trust the restaurants (they were dangerous in those days). In Naples and Rome the kids would ask you to come to their home for a family dinner, but again, I was distrustful. At that time the famed Excelsior Hotel in Rome was set up as an officer's rest spot, and I stayed there for three days on a "rest and rehabilitation" leave. I took a big chance and smuggled in my tail gunner (a sergeant); he wanted to see what it was like to live it up like an officer. And I did have a few good meals at the hotel -- but I ordered steak, not pasta. A real steak was a treat in those days, and I still remember those juicy steaks I had at the Excelsior (which, I gather, is now an expensive luxury hotel). Incidentally, after WWII I never returned to Italy. My first visit just wasn't that pleasant.

* *

What does Louis Farrakhan want? Why guess. Here are actual excerpts from his recent speech at the International Islamic University (following his world trip): "If we Muslims can come together all over the world, we could become the superpower of the 21st century. And that is the fear in the West . . . Those who fear Islam fear that Islam is going to replace the Western hegemony in the world, and they are right."

* *

**Take Your Choice:** In the March issue of the excellent *Futures* magazine there's an article by Elliott Wave expert Bob Prechter, in which Bob predicts that we are near the end of the great bull market. He ends his article with the following, "Regardless of where the DJIA ultimately peaks, the long-term wave pattern convinces me that the coming bear market and subsequent depression will be events for the history books." Ah yes, but in the same issue of *Futures* there's an article by Elaine Garzarelli, in which she opines, "We could see the Dow at around 6,500 at current interest rates. The Fed will loosen again . . . This is a new era, the era of the corporation. The downsizing, the write-offs. My best friends, who have lost their jobs, have PhDs and MBAs . . . It's terrible what's happened to really good people [but] somebody's got to get it."

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**AGING:** New studies indicate that "good genes" account for only 30% of health as one grows older. The rest, 70%, has to do with keeping physically and mentally active. Other older studies liken the brain to a "muscle," and one must either "use it or lose it." And I'm sure there is a lot of truth in the foregoing. After all, I've seen guys 35 years of age who act like old men. And wasn't Picasso still painting and chasing women in his late-80s? The study notes that "people are largely responsible for their own old age." The study found that staying active both physically and socially contribute to successful old aging. The study notes that "by age 80, for many characteristics, there is hardly any genetic influence left." Speaking of health, a new book has just been published in which a cancer-ridden man claims by bonding with his wife and through sex and love his cancer was cured. Sounds fantastic. I personally believe that a great, close, bonding relationship with one's spouse is a great promoter of health. Stress lowers the immunity system while happiness and a lot of love strengthens the system.

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The latest (March) issue of *Travel & Leisure* magazine headlines "Vancouver, the Next Great City." I've thought this for a long time. If I had to live in one city outside the US, I think I'd pick Vancouver. The city is beautiful, clean, has great shops, is on the water and offers almost every kind of amenity. Furthermore, it has the largest Chinatown in N. America, and I love Chinese food. Hong Kong and Chinese money has poured into Vancouver over recent years, and this has helped Vancouver's economy tremendously.

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**Speed:** A consortium made up of Fujitsu, Nippon Telephone and AT&T just made a dramatic leap in the history of communications. They transmitted one TRILLION bits of information a second through an optical fiber. This is tantamount to transmitting 300 years of daily newspapers in a single second or 12 million telephone conversations simultaneously through a glass wire.

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An article by Thomas Friedman in the March 3 *NY Times* notes that despite what we hear about Japan's financial troubles the most competitive Japanese companies are quietly beginning to dominate the mega-markets of tomorrow: Asia. That's Thailand, Cambodia, Indonesia, Burma, southern China, Malaysia, Singapore, Vietnam (and Japan itself, which is 70% of East Asia's GDP). In the 1980s Japan was putting about 12% of its foreign directing investment into other Asian countries; in the 1990s it's been about 35%. Through this strategy Japanese companies are lowering their costs with cheaper Asian labor, which simultaneously capturing a major share of the fastest-growing market on the planet. This year the Asia market for consumer electronics became larger than Europe and by next year it will be larger than the US. "The Japanese are arrogant, insular and stubborn, but they are not stupid," says Ken Courtis, economist for the Deutsche Bank in Japan. "They see where the money is, and that is where they are parking their car -- and they are taking as many places in the parking lot as they can." Minoru Makihara, president of Mitsubishi, stated, "Just as we

underestimated the US six years ago, it would be a mistake for the US to underestimate Japan today."

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GM, seeking tax breaks in Thailand, was turned down by the Thai government. Thailand is now home to 17 carmakers, 12 major assembly plants and nearly 350 parts suppliers. Ford and Mazda just broke ground for a new $500 million plant in Thailand. The plant will produce 135,000 pickups, half for Ford, half for Mazda. Thailand has become a major auto buyer. Japanese share of the Thai market -- 86%. US share -- 2%.

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Where's the Beef? Twenty years ago beef was the dominant meat product in the US with 52% of the market. Today beef has dropped to 34%. Per capita beef consumption in 1975 was 85 pounds per person. It is now 67 pounds. Meanwhile, per capita poultry consumption, having passed beef, has jumped from 40.6 pounds in '78 to 72 pounds today. San Diegans don't despair -- if you love a great steak try Ruth's Chris, a chain that started in New Orleans and is now spreading across the nation. Yep, there's one in San Diego.

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If you've got tens of millions, do you need more millions? The Beatles said they didn't. A consortium of US and German investors offered the three remaining Beatles $225 million for a 22-night tour of the US, Japan and Europe to take place this summer. The three Beatles said no, because they didn't want to do the tour without the fourth Beatle, John Lennon, who was murdered in NYC years ago.

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The US Supreme Court, in a shocking 4 to 3 majority decision, decided that a citizen's property can be taken away even if that citizen had nothing to do with the crime. According to one study, in more than 80% of asset forfeiture cases the property owner is never charged with a crime. The incentive for seizure-abuse is huge, since such ill-gotten gains usually go directly into the law enforcement agency's budget. Mmm, of course the Bill of Rights states that, *"No person shall . . . be deprived of life, liberty or property without due process of law; nor shall private property be taken for public use without just compensation."* But who the hell cares about an old piece of paper called the Bill of Rights -- the law is what the Supreme Court says it is.

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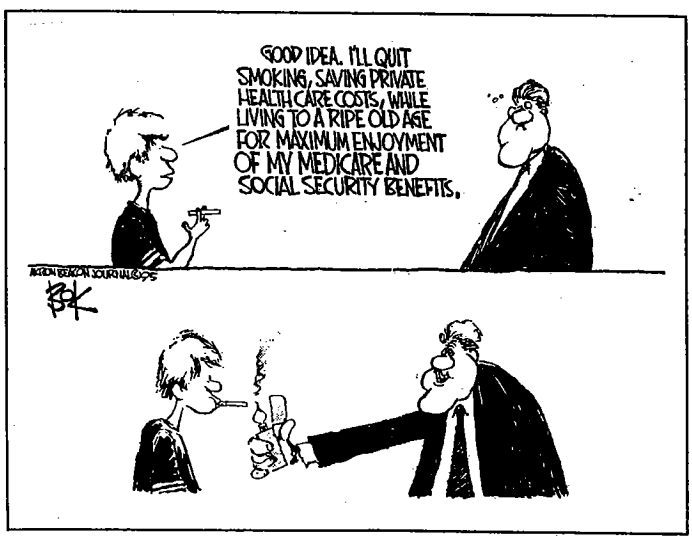
The battle against smoking goes on and on with one of the chief spokesmen for the tobacco industry having recently died of throat cancer (and reversing his opinion about smoking before he died). This classic cartoon featuring Clinton and a young smoker is worth a good laugh, and it may be the only funny comment about smoking that I've seen.

As for me, I smoked from age 18 to around age 40. I quit smoking in 1970, four days before I had a heart attack (I must have sensed that I was killing myself). All I can say about the pernicious habit of smoking (and boy, is it addictive) is that I wish I had never taken that first puff. I learned to smoke as a kid during World War II. At the time we were all more interested in staying alive than staying healthy, and if smoking or any other vice made us feel better about the war and combat, we indulged.

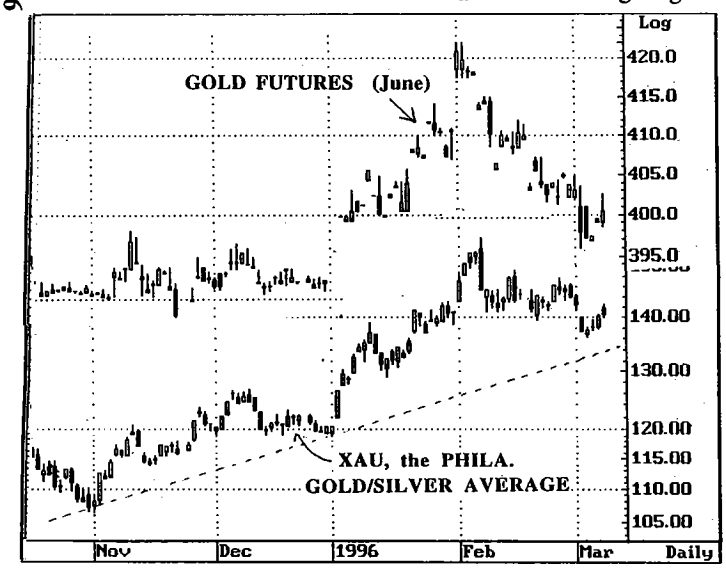

GOOD IDEA. I'LL QUIT SMOKING, SAVING PRIVATE HEALTH CARE COSTS, WHILE LIVING TO A RIPE OLD AGE FOR MAXIMUM ENJOYMENT OF MY MEDICARE AND SOCIAL SECURITY BENEFITS.

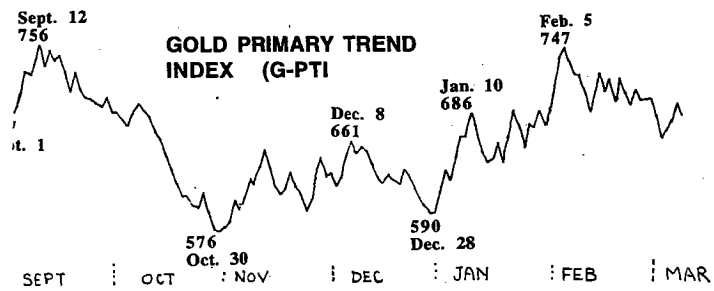
**GOLD:** I guess the charts say it all. I've positioned the June gold futures above the **XAU** Phila. Gold/Silver stock average. After running up to just over 420, gold has declined back to the 390-400 zone. So gold is back to where it opened in early January '96.

The gold stocks have held up somewhat better. In the last Letter I drew attention to the rising (bullish) trendline on the XAU, and noting the weakness, I said that XAU would remain bullish as long as it held above the 132 level or above the rising trendline. So far, the bullish trendline which you see on the chart has been respected. Therefore, despite weakness in gold and despite weakness in the stocks I would say that the picture remains neutral to hopeful, the hopeful part of it being that XAU (the stocks) has not broken down yet.

Referring to my Gold-Primary Trend Index (G-PTI) this indicator provided warnings when, on the most recent (February) rally, it failed to better its September 12 peak at 756 (see chart). Now I have drawn a new rising trendline, and we'll see if the G-PTI can hold above this trendline. The BIG target for G-PTI remains the September 12 peak of **756.** Unless or until 756 is bettered, gold will be fated to back and fill within its long, tedious trading range.

NEXT MAILING: Mar. 27, 1996




**LATE NOTES:** The markets are volatile and chaotic as this is written (Monday morning, March 11), so this is one of those sessions where you have to wait for the close to see what's really happening. Dow Theory gauges market action strictly on market *closings.* When the final bell rings we know that many (most) day-traders have taken their profits or losses and closed out their positions. . . The S&P broke below its February 20 support, but neither the Dow nor the Transports have confirmed. Remember, the Dow closing for Feb. 20 was **5458.53,** for the Transports it was **2027.85.** As long as one or both of those lows hold, the situation will remain positive. The D-J Averages continue to be stronger than the general market.